



Joint Legislative Audit and Review Commission

2000 Fiscal Impact Review

Bill Number: HB1442 as Introduced
Review Requested By: Delegate Cranwell
Chairman of: House Finance

Concur

JLARC Staff concur with the fiscal impact statement referred for review

Concur with Reservations

With the reservations noted below, JLARC staff concur with the fiscal impact statement referred for review

X Non-Concur

As noted below, JLARC staff do not concur with the fiscal impact statement referred for review.

Bill Summary

Reforms local government taxing authority, and the powers of counties, to allow high-growth localities, and localities with certain types of conditional zoning power, to more adequately fund transportation improvements and public school operations in order to relieve intensive growth pressures by (i) conforming local taxing powers by granting counties the same powers of taxation that are now granted only to municipalities by the Uniform Charter Powers Act; (ii) expanding the applicability of optional local income tax authority by including all high-growth localities; (iii) requiring the referendum for approval of the local income tax to be held at the general election in November of 2000; (iv) allowing the revenues from such tax to be used for educational purposes, rather than for transportation facilities only; (v) deleting provisions which would prevent a locality that levies the local income tax from reducing the total amount of its annual general fund appropriations for transportation below the amount appropriated prior to levying the tax; and (v) repealing the five-year sunset clause.

Fiscal Implications

<u>FUND SOURCE</u>	<u>DOLLARS</u>	<u>POSITIONS</u>
FY 2001		
General Fund	\$0	0.00
Non General Fund	\$0	0.00
FY 2002		
General Fund	\$0	0.00
Non General Fund	\$120,268	0.00
FY 2003		
General Fund	\$0	0.00
Non General Fund	\$0	0.00
Cumulative		
General Fund	\$0	0.00
Non General Fund	\$120,268	0.00
TOTAL	\$120,268	0.00

JLARC staff concludes that HB 1442 would have a potential fiscal impact of \$120,268 in FY 2002. This impact is through investment income loss caused by drawing down necessary start-up funds by the Department of Taxation from the Transportation Trust Fund to administer a local income tax for the additional localities made eligible to enact a local income tax through HB 1442 .

This bill has two primary provisions. First, the bill would amend §§ 15.2-204 and 15.2-1200 to grant counties the same powers of taxation granted to municipalities in § 15.2-1104. Currently, all counties cannot impose all of the taxes that cities can. Also, some tax rates are limited for counties and not for cities and towns. This bill would remove those distinctions between taxes imposed by cities and counties.

The second major provision of this bill expands the localities eligible to enact a local income tax. The localities currently eligible to enact a local income tax are: Arlington County, Fairfax County, Loudoun County, Prince William County, Alexandria, Fairfax City, Falls Church, Manassas, Manassas Park, and Norfolk. This bill would grant eligibility to enact a local income tax to any locality to which §§ 15.2-2298 or 15.2-2303 is applicable. By our analysis, this would make eligible an additional 65 counties and cities, as well as 64 towns.

Within this second provision, the bill also amends current statute to allow local income tax revenue to be used for educational purposes as well as transportation purposes. The current statute (§§ 58.1-540 and 58.1-548) limits the use of this local income tax revenue to transportation purposes only.

Also within this second provision, the bill requires that the referendum required to enact the local income tax be held during the next general election in November 2000. Failure to hold the referendum at that time would effectively sunset the provisions of § 58.1-540. However, the current five year limit on the collection of the local income tax (as specified in § 58.1-549) is repealed by this bill. In addition, this bill repeals part of § 58.1-548 pertaining to the maintenance of current funding levels after the income tax is enacted. The current law requires that localities use local income tax revenue as funds "in addition to those allocated to the county or city" from the State (for transportation purposes). The current law also requires that the locality "shall not reduce the total amount of its annual general fund appropriations, exclusive of the revenues derived from the tax" for the designated purposes (again, currently limited to transportation purposes). This bill would repeal these requirements.

Despite the fact that none of the currently eligible localities have enacted a local income tax, the ability to enact a local income tax is already granted under the provisions of §58.1-540. Since those provisions will continue with or without passage of this bill, the administrative costs presented in the fiscal impact statement prepared by the Department of Taxation (the Department) associated with the number of returns filed in these ten localities can not be attributed to HB 1442. The Department has estimated administrative costs of a system capable of handling 2.5 million local income tax returns at \$4,261,730 in the first year, \$1,085,730 in the second year, and \$638,530 annually thereafter. Localities currently eligible to enact a local income tax would account for approximately one million returns (in 1997, 840,677 returns were filed in these localities). According to the Department's data, the remaining costs of administering the local income tax in the additional counties and cities made eligible would be \$2,106,265 in the first year \$214,265 annually thereafter.

It is important to note that administrative costs of the Department are fully reimbursable from the local income tax revenue collected, according to § 58.1-548. The Department would have to provide the necessary start-up costs prior to revenue being collected, but these start-up costs, and the annual costs of administering the program would then be reimbursed from the revenues collected. The Department is currently authorized by the 1999 Appropriations Act to tap the Transportation Trust Fund for these start-up costs. The Budget Bill (HB 30) continues this authorization. If the Department did have to pull money from the Transportation Trust Fund, this would result in a loss of investment income from the General Account Composite (of which the Transportation Trust Fund is part). Assuming that the first year start-up cost of \$2,106,265 (the cost associated with the additional localities made eligible to enact a local income tax by HB 1442, as discussed above) is pulled from the Transportation Trust Fund, and assuming a rate of return of 5.71 percent (the FY99 yield) this would result in a loss of investment income of approximately \$120,268 for the General Account Composite. This non-General Fund loss would likely occur in FY 2002, as the bill requires the necessary referendum to occur in November 2000, indicating a possible enactment on July 1, 2001. Clearly, if the yield changes, this loss would change as well (Treasury estimates the Composite Yield for FY00 at 5.46 percent) and if the enactment varied, adjustments would have to be made. This loss of investment income would be the only non-reimbursable

cost to the State associated solely with this bill.

In terms of local revenue generation, granting counties the same abilities to tax as cities currently enjoy would potentially increase local revenues if the taxes are enacted or if currently restricted tax rates are increased. Definitive estimates of this revenue potential are not possible.

In terms of the expansion of eligibility for the local income tax, substantial local revenues could be raised by localities enacting a local income tax. Based on actual 1997 Taxable Income data, the Department of Taxation estimated that the ten localities currently eligible to enact the tax could have collected approximately \$380 million if the local income tax had been enacted at the maximum one percent rate. Under the provisions of this bill, an additional \$430 million would have been collected by the 65 additional counties and cities. Additional revenue could also have been collected by the 64 towns made eligible by this bill, but precise estimates are not available due to the lack of taxable income data specific to individuals living in the towns. As the local income tax applies to corporations and estates as well, additional revenues could be received from these sources. However, available data sources do not allow for estimation of these revenues.

It should be noted that the Department raises a valid policy issue concerning use of the Transportation Trust Fund for start-up costs given that under this bill, funds could be used for both transportation purposes and educational purposes.

Budget Amendment Necessary

No

Agencies Affected

Localities that are currently or would become eligible for the local income tax.

Date Released, Prepared By: 02/07/2000; Steve Ford

JLARC Staff offer the above Fiscal Impact Review in Accordance with Item 16K of Chapter 935 (1999 Acts of Assembly). JLARC Fiscal Impact Reviews do not comment on the merits of the bill under review.